

## Message Text

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ACTION EA-09

INFO OCT-01 ISO-00 SAJ-01 EUR-12 CU-02 CIAE-00 DODE-00

PM-04 H-02 INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01

SP-02 SS-15 USIA-06 AID-05 COME-00 EB-07 FRB-03

TRSE-00 XMB-02 OPIC-03 CIEP-01 LAB-04 SIL-01 OMB-01

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R 240712Z OCT 75

FM AMCONSUL HONG KONG

TO SECSTATE WASHDC 7678

INFO AMEMBASSY TAIPEI

AMEMBASSY SINGAPORE

AMEMBASSY TOKYO BY POUCH

FBIS OKINAWA

USLO PEKING BY POUCH

CINCPAC HONOLULU HI

C O N F I D E N T I A L SECTION 1 OF 2 HONG KONG 12676

CINCPAC FOR POLAD

E.O. 11652: GDS

TAGS: ECON, PINT, CH

SUBJECT: PRC INDUSTRIAL ADVANCE--ENCOURAGING DESPITE TROUBLE SPOTS

REF: HK 7767

SUMMARY: BEGINNING WITH THE NATIONAL PEOPLE'S CONGRESS, CHINA HAS EMBARKED ON A MASSIVE DEVELOPMENT DRIVE TO BUILD A "POWERFUL, MODERN SOCIALIST CHINA" BEFORE THE END OF THE CENTURY. AFTER A SLUGGISH START, IN PART THE RESULT OF HOLDOVER PROBLEMS FROM 1974 AND IN PART BECAUSE OF INHERENT STRUCTURAL IMBALANCES, ENCOURAGING OVERALL PROGRESS HAS BEEN MADE, UNDERLINED BY A CLAIM OF 17.3 PERCENT GROWTH IN INDUSTRIAL OUTPUT VALUE FOR THE FIRST EIGHT MONTHS OF 1975.

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THIS DOES NOT, HOWEVER, PROVIDE A COMPLETE ASSESSMENT OF THE

ECONOMY AS HAS BEEN REVEALED IN A NUMBER OF CENTRAL DIRECTIVES FOCUSING CRITICISM ON A FEW KEY INDUSTRIAL SECTORS PUNCTUATED BY THE OCCASIONAL SURFACING OF FACTIONAL AND LABOR PROBLEMS IN A NUMBER OF AREAS. WHILE LABOR-RELATED PROBLEMS ARE POTENTIALLY DISRUPTIVE, THEY HAVE SO FAR APPARENTLY BEEN LOCALIZED. TO THE EXTENT THAT PRAGMATIC POLICIES SET FORTH AT THE NPC ARE MAINTAINED AND DISRUPTIVE POLITICAL AND LABOR RELATED FACTORS ARE DAMPENED, OVERALL INDUSTRIAL GROWTH SHOULD CONTINUE TO RETURN TO NORMAL PATTERNS, ALTHOUGH STILL CHARACTERIZED BY UNEVEN PROGRESS IN INDIVIDUAL SECTORS. END SUMMARY

1. THE PRC'S APPARENT INDUSTRIAL RECOVERY IN 1975 OVER 1974 HAS BEEN UNDERLINED BY THE RECENT CLAIM OF A WHOPPING 17.3 PERCENT INCREASE IN GROSS VALUE OF OUTPUT FOR THE FIRST EIGHT MONTHS OF 1975 OVER THE EQUIVALENT PERIOD OF 1974 (HK 11621). WHILE THIS IS A GOOD AGGREGATE RECORD, REFLECTING THE REGIME'S CURRENT ECONOMIC DRIVE, IT NEVERTHELESS DOES NOT PROVIDE A COMPLETE ASSESSMENT OF THE ECONOMY AS HAS BEEN POINTED UP BY VARIOUS CENTRAL DIRECTIVES--FROM MID-1974 ON--CRITICAL OF A NUMBER OF KEY INDUSTRIAL SECTORS. THE HIGH PERCENTAGE INCREASES ANNOUNCED SO FAR THIS YEAR SHOULD ALSO BE SEEN IN THE PERSPECTIVE OF 1974'S LOW GROWTH RATE--ESPECIALLY OVER THE FIRST EIGHT MONTHS.

2. SUBSTANTIAL IMBALANCES EXIST WITHIN THE CHINESE ECONOMY AND MOST SECTORS, EVEN THE RAPIDLY-GROWING PETROLEUM INDUSTRY, HAVE WEAK LINKS AND BOTTLENECKS. WHILE FACTIONALISM AND LABOR UNREST OVER THE PAST YEAR OR SO HAVE CONTRIBUTED TO ECONOMIC WOES, STRUCTURAL IMBALANCES GROWING OUT OF FUNDAMENTAL PLANNING AND INVESTMENT DEFICIENCIES ARE OFTEN AT THE ROOT OF THE PROBLEM. THESE IMBALANCES BECOME MORE OBVIOUS DURING SUCH PERIODS AS THE CURRENT PRODUCTION DRIVE WHEN INCREASED OUTPUT IN ONE PART OF THE PRODUCTION PROCESS MAY PILE UP AGAINST OVERBURDENED CAPACITY IN ANOTHER PART, OR WHEN ONE SECTOR CANNOT MEET THE DEMAND OF ANOTHER.

3. THIS IS PARTICULARLY TRUE OF THE OFT-CRITICIZED IRON AND STEEL INDUSTRY, WHERE THE DEVELOPMENT OF RAW MATERIALS PRODUCTION AT ONE END AND STEEL FINISHING AT THE OTHER HAVE NOT KEPT PACE WITH CRUDE STEEL PRODUCTION AT THE "MIDDLE" OF THE

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PROCESS. SIMILAR PROBLEMS EXIST IN THE KEY SECTORS OF COAL AND TRANSPORT. A LOW RATE OF INVESTMENT IN CAPITAL CONSTRUCTION, MECHANIZATION, AND BENEFICIATION HAS PLAGUED COAL OUTPUT, WHILE POOR MECHANIZATION OF LOADING AND UNLOADING FACILITIES HAS HINDERED RAIL PERFORMANCE, DESPITE A LARGE EXPANSION OF THE RAIL NETWORK THROUGH NEW LINES AND DOUBLE TRACKING.

4. GIVEN THESE INHERENT ECONOMIC LIMITATIONS, THERE IS

LITTLE MARGIN FOR FACTIONALISM AND LABOR UNREST, ESPECIALLY WHEN UNDER THE PRESSURE OF THE CURRENT ECONOMIC DRIVE RAISING LABOR PRODUCTIVITY IS THE MOST OBVIOUS MEANS OF ACHIEVING QUICK RETURNS. ATTEMPTING TO BRIDGE THE GAP, THE LEADERSHIP HAS FOCUSED CENTRAL DIRECTIVE CRITICISM ON ALL THREE OF THE INDUSTRIES MENTIONED ABOVE, BEGINNING WITH COAL IN MID-1974, RAILWAYS EARLIER THIS YEAR AND STEEL IN JUNE. WITH "DISCIPLINE" AS A KEY THEME OF THE DICTATORSHIP CAMPAIGN SINCE FEBRUARY, LEADERSHIP CONCERN ABOUT LABOR PRODUCTIVITY IS OBVIOUS. 5. IN PART THE RESULT OF STRUGGLES CARRIED OVER FROM THE CULTURAL REVOLUTION AND EXACERBATED BY LAST YEAR'S ANTI-LIN/CONFUCIUS CAMPAIGN, THE ISSUE OF FACTIONALISM REMAINS A PROBLEM IN 1975 AND HAS RESULTED IN NUMEROUS, THOUGH PROBABLY LOCALIZED, FACTORY CLOSURES OR SLOWDOWNS IN PRODUCTION. THE WORST CASE TO DATE HAS BEEN THE ONE REVEALED IN CHEKIANG WHERE THE REGIME FINALLY HAD TO RESORT TO THE USE OF PLA TROOPS TO RESTORE PRODUCTION AND CALM A VIOLENT FACTIONAL CONFRONTATION (HK 8522; HK 8610).

6. FACTIONALISM AND LABOR UNREST IN CHINA'S FACTORIES ARE ALSO MORE SERIOUSLY REFLECTIVE OF AN OVERALL MALAISE THAT HAS AFFECTED RESPONSIVENESS AND ENTHUSIASM ACROSS THE BOARD IN CHINA. BUFFETED BY LONG PERIODS OF POLITICAL CAMPAIGNING, CADRES AND MANAGERS HAVE OFTEN APPEARED HESITANT TO ENFORCE CENTER INSTRUCTIONS ON A LABOR FORCE FACING GREATER WORK DEMANDS WITHOUT CORRESPONDING MATERIAL REWARDS AND ALREADY SOMEWHAT DISGRUNTLED OVER APPARENT LACK OF RESPONSE TO WAGE ISSUES.

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R 240712Z OCT 75

FM AMCONSUL HONG KONG  
TO SECSTATE WASHDC 7679  
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CINCPAC FOR POLAD

7. THUS, UNDER THE MEDIA RUBRIC OF "STRENGTHENING MANAGEMENT", A MAJOR THRUST OF THE CURRENT ECONOMIC DEVELOPMENT CAMPAIGN--AS REVEALED BY THE CENTRAL DIRECTIVES--HAS BEEN TO ENSURE IMPLEMENTATION OF CENTER INSTRUCTIONS AND TO ENSURE THAT THE CONCENTRATION ON PRODUCTION GOALS WAS ACTUALLY FOLLOWED THROUGH AND NOT SIDESTEPED FOR FEAR THAT THIS WAS CONTRADICTORY TO THE IDEOLOGUE EMPHASIS ON REVOLUTION BEFORE PRODUCTION. THROUGHOUT THE SERIES OF CENTRAL DIRECTIVES THAT HAVE SPECIFICALLY REFERRED TO THE ECONOMY--THERE HAVE BEEN AT LAST 10 THIS YEAR--THE REGIME HAS CONSISTENTLY HARPED ON THE NEED TO OBEY INSTRUCTIONS AND CARRY OUT ORDERS.

8. OF THE THREE SECTORS SINGLED OUT IN CENTRAL DIRECTIVES, COAL AND RIAL TRANSPORT, WITH LOCAL EXCEPTIONS, HAVE APPARENTLY CONFIDENTIAL

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RESPONDED POSITIVELY AND WERE REPORTED TO HAVE MET THEIR TARGETS AT MID-YEAR AND OVER THE FIRST EIGHT MONTHS. THE IRON AND STEEL SECTOR HAS BEEN SLOWER, AND THE ABSENCE OF MID-YEAR AND IEHGT MONTH CLAIMS LEAVES THE CLEAR IMPLICATION THAT MANAGEMENT AND LABOR HAVE BEEN UNABLE OR UNWILLING TO RESPOND ENTHUSIASTICALLY ENOUGH TO OVERCOME THE INDUSTRY'S PROBLEMS. IN THE CASE OF IRON AND STEEL WHERE PRODUCTION IS CONCENTRATED IN A RELATIVELY SMALL NUMBER OF PLANTS (EIGHT PLANTS ACCOUNT FOR OVER 70 PER CENT OF TOTAL CRUDE STEEL OUTPUT), DIFFICULTIES AT ONLY ONE OR TWO PLANTS (SUCH AS HAVE BEEN REPORTED AT VARIOUS TIMES FOR SHANGHAI, WUHAN AND PAOTOU) ARE LIKELY TO AFFECT OVERALL PRODUCTION MORE DIRECTLY THAN MAY BE THE CASE IN OTHER SECTORS.

9. THERE ARE OBVIOUS LIMITATIONS ON HOW MUCH ECONOMIC MILEAGE THE CENTER CAN GET OUT OF INCREASED LABOR DISCIPLINE AND "SOCIALIST ENTHUSIASM." NOT WISHING TO INCREASE ITS WAGE BILL AT A TIME OF NATIONAL SACRIFICE FOR LONG-RANGE ECONOMIC GOALS AND RESTRAINED BY IDEOLOGICAL CONSIDERATIONS THAT HAVE PERHAPS BEEN GIVEN RENEWED IMPETUS BY THE SHIU HU CHUAN CAMPAIGN AND THE NEW REEMPHASIS ON LEARNING FROM TACHAI, LEADERSHIP OPTIONS IN HANDLING LABOR UNREST MAY HAVE BECOME MORE

RESTRICTED. THE TIMING AND NATURE OF THE LEADERSHIP'S  
EVENTUAL RESPONSE TO THE PROBLEM OF WAGE DISSATISFACTION  
WILL OBVIOUSLY BEAR HEAVILY ON THE DEGREE OF LABOR COOPERATION  
IN THE CRITICAL PERIOD AHEAD.

10. AS THE FOURTH FIVE YEAR PLAN DRAWS TO A CLOSE AND THE  
FIFTH LOOMS NEAR, THE OUTLOOK FOR CHINA'S INDUSTRIAL GROWTH  
IS ONE OF GUARDED OPTIMISM. ECONOMIC IMBALANCES ARE LIKELY  
TO CONTINUE TO BE REFLECTED IN UNEVEN GROWTH PATTERNS OF IN-  
DIVIDUAL SECTORS AND FACTIONALISM AND LABOR UNREST MAY CONTINUE  
TO CROP UP IN GEOGRAPHIC AREAS, INDIVIDUAL PLANTS OR EVEN ENTIRE  
INDUSTRIES. NEVERTHELESS, ON BALANCE, SO LONG AS THE PRAGMATIC  
APPROACH TO ECONOMIC DEVELOPMENT SET FORTH BY CHOU EN-LAI AT  
THE NPC IS MAINTAINED AND TO THE EXTENT THAT FACTIONALISM AND  
LABOR UNREST REMAIN LOCALIZED, CHINA SHOULD BE ABLE TO CONTINUE  
TO RETURN TO THE OVERALL GROWTH PATTERNS PREVAILING PRIOR  
TO 1974. CROSS

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